



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
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MAY 5 1978



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Mrs. Stella B. Hackel
Director of the Mint
Department of the Treasury

Dear Mrs. Hackel:

As a part of the General Accounting Office's examination of the financial statements of the Bureau of Government Financial Operations, we observed physical inventories of gold and other assets at Fort Knox and the Denver Mint and the settlement of accounts at the Denver Mint.

We reviewed the continuing audits to verify the existence of gold stored at the Fort Knox and Denver Mints and the accuracy of the gold inventory records. The physical inventories were monitored to see if proper controls were used and whether the inventories were performed according to Treasury regulations.

We observed the first 3 and last 4 days of the inventories at Fort Knox to determine the adequacy of controls and procedures. Our assessment of controls and compliance with regulations applies only to these 7 days.

At the Denver Mint, we reviewed the annual settlement to verify the existence of the bullion, coin, coinage metals, and other metals.

The Department of the Treasury's continuing audits of U.S.-owned gold at the Fort Knox depository and the Denver Mint were properly carried out. Control over the physical inventory of gold was adequate, and the quality of the gold was fairly stated. The 1977 annual settlement at the Denver Mint was done according to instructions, but part of these instructions should be revised to correct some problems.

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CONTINUING AUDITS AT FORT KNOX
AND DENVER DEPOSITORIES

During the continuing audit held June 6-23, 1977, at the Fort Knox Depository, a little more than 11 percent of the gold was inventoried. This was about 17.2 million fine troy ounces. Control over the physical inventory was satisfactory and Treasury regulations were followed.

During inventory, chips from two sample melts showed the gold was below the fineness (5 parts per 10,000) permitted by the Bureau. Because of this problem, the vault had to be opened twice more in the presence of the Joint Sealing Committee and the gold reevaluated. This involved considerable time and expense, but was necessary because the fineness of gold must be precisely determined.

On July 29, 1977, bore samples, rather than chips, were taken from the questionable melts and sent to two assay offices for independent evaluations. Half of the samples reassayed were still unacceptable. The Bureau decided that the two melts from which the samples were taken had to be remelted and reassayed. This was done on November 16 and 17, 1977. This time, the gold was within the prescribed level of fineness but below the fineness listed on the inventory schedule. The difference in the original and revalued fineness resulted in a \$158.77 adjustment to the records, which was considered insignificant. Previous discrepancies in fineness were attributed to improper melting and casting of the melts in 1920 and 1921. Bureau officials said the remelting process confirmed the validity and integrity of their audit procedures and assays.

During the continuing audit held from February 28 to March 10, 1977, at the Denver Mint, 14.5 percent of the gold was inventoried. This was almost 6 million fine troy ounces. Control over the physical inventory was satisfactory, and Treasury regulations were followed.

ANNUAL SETTLEMENT AT DENVER MINT

The 1977 annual settlement held in February 1977, was carried out according to Treasury instructions and the Settlement Committee was satisfied that reported assets were, in fact, on hand. The committee also considered the surplus and waste of scrap in the coinage metal accounts acceptable.

The Settlement Committee used its own best judgment to determine whether the surplus and waste were reasonable, because the Mint has no standards to use in this process. An unwritten 0.2 percent has evolved as a generally acceptable standard by which metal on hand can deviate either above or below inventory schedules. When determining the percentage, the total amount of metal worked on is a key figure. The Revised Annual Settlement Instructions, dated October 18, 1977, provided a format for each division to compute the amount of metal worked upon. However, no standard for deviation was established.

We suggested that the Bureau develop criteria to evaluate the reasonableness of waste and surplus in the coinage metal accounts.

On March 10, 1978, the Chief, Internal Audit Staff requested a study to establish standards for evaluating the reasonableness of waste and surplus in the coinage metal accounts. We plan to follow up on this study later.

We appreciate the assistance and cooperation provided by your staff during our work.

Sincerely yours,


David P. Sorando
Regional Manager